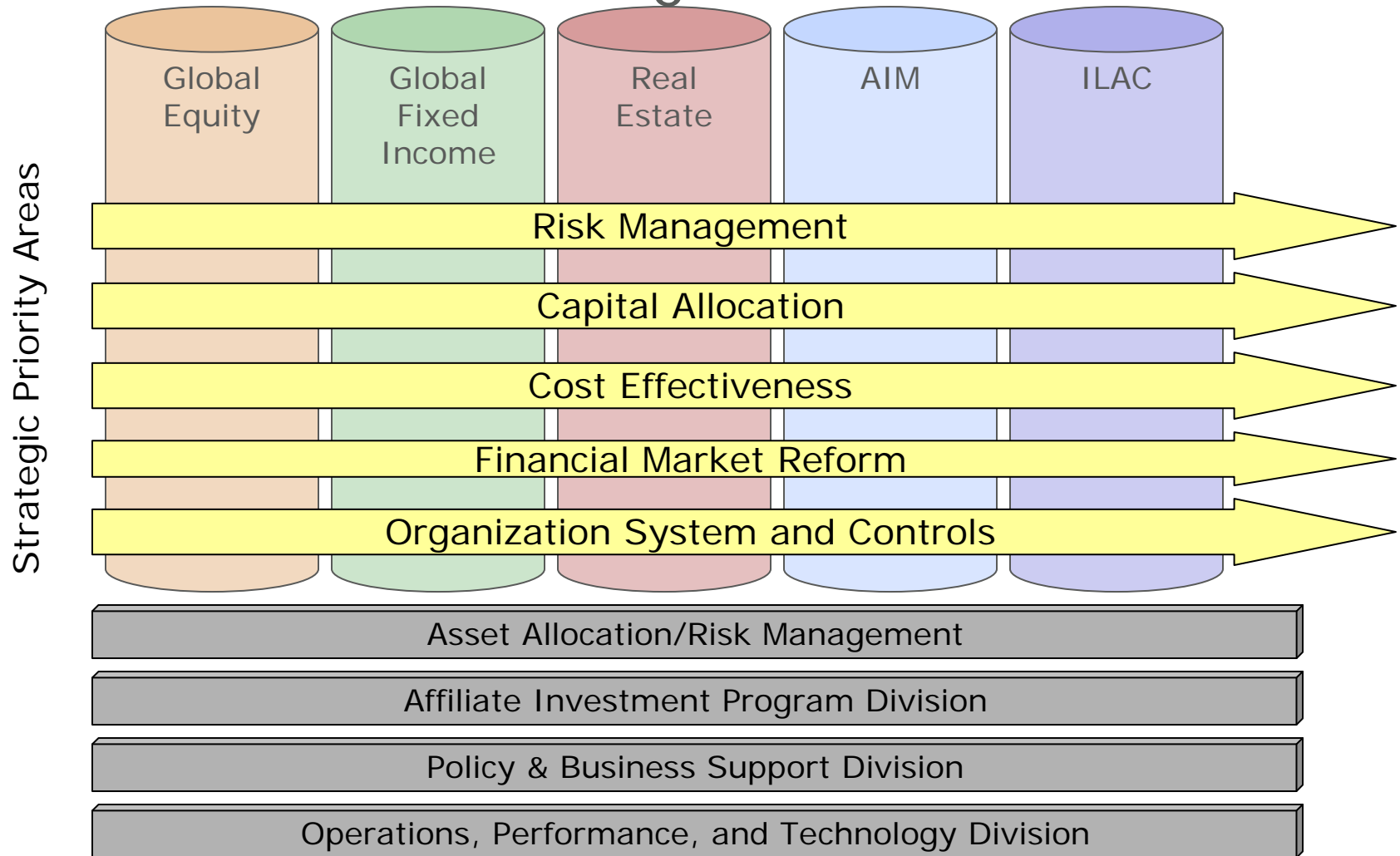


2010 Roadmap Year End Progress Report

Joseph A. Dear
Chief Investment Officer

December 13, 2010

Investment Office Strategic Priorities



Approach

- Presented Roadmap to Investment Committee in January 2010
- Developed cross-functional teams to tackle initiatives
- Successfully used Rapid Results approach for 6 projects
- Provided quarterly updates to the Investment Committee
- Making significant progress on long-term efforts
- Plan to update the Roadmap each year

Strategic Priorities – Summary of Accomplishments

- Risk Management
 - Adopted a Risk Framework and Governance Structure
 - Completed a risk assessment (“heat map”) for the Investment Office
 - Using Risk Heat Map to develop priorities for 2011/2012 Roadmap
- Capital Allocation
 - Built internal consensus on asset class roles and risk profiles
 - Developed a new asset allocation approach (“factor based”) and obtained Investment Committee approval
 - Conducted Capital Market Assumptions and ALM Workshops with Investment Committee and recommended Strategic Asset Allocation targets

Strategic Priorities – Summary of Accomplishments

- Cost Effectiveness/ Profit Enhancement
 - Improved terms on deals and formalized processes (*through Two Rapid Results Projects*)
 - ✓ Reduced on-going fees by \$73 million annually
 - ✓ Saved \$14 million in one-time costs
 - ✓ Deferred \$55 million in incentive fees
- Financial Market Reform
 - Engaged legislators and regulators on market stability and shareholder rights
 - Engaged 58 companies requesting majority vote reform
 - Created coalition to identify diverse pool of talent for boards

Strategic Priorities – Summary of Accomplishments

- Organizational Systems & Controls
 - Developed web-based investment proposal submission and tracking system (*Rapid Results Project*)
 - Created Investment Proposal Decision Criteria and Screening Process (*Rapid Results Project*)
 - Rationalized Composite Structure (*Rapid Results Project*)
 - Finalized the Automated Real Estate Investment System (AREIS)
 - Initiated Master Custodian procurement
 - Selected a risk management system
 - Developed enhanced contract management database
 - Formed INVO Operating Committee & Investment Strategy Group
 - Strengthened technology governance

Asset Class & Division Initiatives

- The five Asset Classes and three Divisions all made significant progress on their initiatives
- Highlights include:
 - Generated total fund return of 13.3% at fiscal year ending June 30, 2010, outperforming our benchmark
 - Restructured Real Estate portfolio
 - Developed Global Equity target operating model
 - Reorganized Global Equity team
 - Beginning to use GEA³ model
 - Modified the incentive compensation program
 - Reduced administrative and program costs in AIPD by \$416K

Proposed Next Steps

- Several initiatives will span multiple years – we will continue making progress on the longer term projects
- Future Roadmaps will align with CalPERS business planning and budgeting activities by being based on a fiscal year cycle
- FY 2011/12 Roadmap continues four priorities and adds two more:
 1. Organization, Systems and Controls (existing)
 2. Talent Management (new)
 3. Risk Management (existing)
 4. Capital Allocation (existing)
 5. Cost Effectiveness (existing)
 6. Investment Performance (new)
- Financial Market Reform will fold into our core workload
- Present an updated plan to Investment Committee in February/March 2011